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BEFORE THE ARIZONA CORPORATION COMMISSION

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GARY PIERCE - CHAIRMAN
BOB STUMP - COMMISSIONER
SANDRA D. KENNEDY - COMMISSIONER
PAUL NEWMAN - COMMISSIONER
BRENDA BURNS - COMMISSIONER

IN THE MATTER OF THE APPLICATION OF
QWEST CORPORATION D/B/A CENTURYLINK-
QC ("CENTURYLINK") TO CLASSIFY AND
REGULATE RETAIL LOCAL EXCHANGE
TELECOMMUNICATIONS SERVICES AS
COMPETITIVE, AND TO CLASSIFY AND
DEREGULATE CERTAIN SERVICES AS NON-
ESSENTIAL

DOCKET NO. T-01051B-11-0378

NOTICE OF FILING OF TESTIMONY

CenturyLink hereby files the attached Testimony of Jerry Fenn in Support of the
Settlement Agreement between CenturyLink, the Arizona Corporation Commission Utilities
Division Staff, the Residential Utility Consumer Office, and the Arizona Investment Council,
filed on May 17, 2012 in the above captioned proceeding.

SUBMITTED, this 25th day of May, 2012.

Arizona Corporation Commission

DOCKETED

MAY 25 2012



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CENTURYLINK-QC

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1 ORIGINAL and thirteen (13) copies filed
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BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE

Chairman

BOB STUMP

Commissioner

SANDRA D. KENNEDY

Commissioner

PAUL NEWMAN

Commissioner

BRENDA BURNS

Commissioner

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DOCKET NO. T-01051B-11-0378

SETTLEMENT TESTIMONY

OF

JERRY FENN

ON BEHALF OF

CENTURYLINK

MAY 25, 2012

TABLE OF CONTENTS

I.	IDENTIFICATION OF WITNESS	1
II.	PURPOSE OF TESTIMONY	1
III.	STANDARD OF REVIEW	2
IV.	OPEN NEGOTIATION PROCESS	3
V.	THE SETTLEMENT AGREEMENT FURTHERS THE PUBLIC INTEREST	4
III.	CONCLUSION.....	12

I. IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE RECORD.

A. My name is Jerry Fenn. My business address is 250 Bell Plaza, Salt Lake City, Utah.

Q. WHAT IS YOUR ROLE AT CENTURYLINK?

A. I am the Regional VP of Public Policy, for eight western states. Those states are Arizona, California, Idaho, Montana, New Mexico, Oregon, Utah, and Washington. In that role, I am responsible, among other things, for compliance with Federal and state telecommunications regulatory requirements.

Q. ARE YOU THE SAME JERRY FENN WHO FILED REBUTTAL TESTIMONY IN THIS DOCKET?

A. Yes.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to demonstrate that the settlement agreement with Commission Staff, RUCO and AIC in this proceeding (hereafter referenced as the "Settlement Agreement") is in the public interest and should be approved by the Commission. Exhibit JF-S1 to my testimony is copy of the Settlement Agreement, which was filed in this docket on May 17, 2012.

III. STANDARD OF REVIEW

Q. WHAT STANDARD OF REVIEW IS APPLICABLE IN THIS PROCEEDING?

A. The standard of review is set forth in A.A.C. R14-2-1102(4), which defines a competitive service as follows:

"Competitive Telecommunications Service." Any telecommunications service where customers of the service within the relevant market have or are likely to have reasonably available alternatives.

Q. HAVE THE REVIEW STANDARDS BEEN MET?

A. Yes. The information provided by CenturyLink in its Application, as well as in its Direct and Rebuttal testimony, provides ample support for a finding that customers have reasonably available alternatives to the services provided by the Company. Additional information and analysis provided by Staff, RUCO, and AIC also support this finding.

Clearly the evidence in the case compels the conclusion that there is robust competition in the market for voice services in Arizona and that this market is fully competitive, certainly enough to meet the standards of Rule 1108. As demonstrated, CenturyLink's total access lines declined 54% between 2001 and 2010 and, as Mr. Brigham stated in his rebuttal testimony, this trend continues with CenturyLink losing another 10% of its access lines in Arizona in 2011. (Brigham Rebuttal Testimony, p. 15). CenturyLink's access lines are declining because people have competitive alternatives and, unfortunately for our business, are exercising such alternatives. Even casual observers of the Arizona voice market understand that customers are increasingly moving to wireless service and many are disconnecting their wireline service completely. Today 30% of former landline customers have cut the cord and there are almost twice as many wireless connections as wireline in

1 Arizona. Cable competition is fierce as Cox and other cable providers compete vigorously
2 with CenturyLink in nearly all of its serving area. It is the availability of such competitive
3 alternatives, where customers can freely move to a competitor, that constrains
4 CenturyLink's market power and prices. The decision makers at CenturyLink must take
5 this fierce competitive marketplace into account in the decisions that they make on a daily
6 basis. Approval of CenturyLink's Application is fully warranted.

7 The Settlement Agreement provides a procedural vehicle by which the Commission can
8 expeditiously conclude that a competitive determination should be made for CenturyLink
9 under Rule 1108, with the assurance that the State's public interest representatives, RUCO
10 and the Commission Staff, are fully in agreement, while saving the time and expense of
11 further litigation.

12 IV. OPEN NEGOTIATION PROCESS

13 **Q. PLEASE DESCRIBE THE NEGOTIATIONS WHICH LEAD TO THE**
14 **SETTLEMENT AGREEMENT.**

15 A. The negotiations were open to all interested parties in the proceeding and consisted of five
16 separate sessions. All interveners were invited to participate in the negotiations and had a
17 representative either on the telephone or in person during the negotiations. Each of the
18 parties was afforded an opportunity to present their position on the application and make
19 recommendations on issues that were of concern to them. The final agreement represents a
20 compromise of the various parties' positions.

**V. THE SETTLEMENT AGREEMENT FURTHERS THE PUBLIC
INTEREST**

**Q. PLEASE EXPLAIN WHY THE SETTLEMENT WITH COMMISSION STAFF,
RUCO AND AIC FURTHERS THE PUBLIC INTEREST.**

A. The Settlement Agreement is in the public interest because it recognizes the changes that have occurred in the telecommunications market in Arizona since the passage of the 96 Telecom Act. These changes have resulted in most consumers and businesses in Arizona having multiple alternatives for obtaining telecommunications services. Given the presence of these alternatives, it is no longer necessary to regulate CenturyLink-QC differently from its competitors. The Settlement Agreement provides CenturyLink-QC with the ability to set streamlined maximum rates under A.A.C. R14-2-1110 and to react quickly in the marketplace with the ability to change its actual rates under R14-2-1109. The agreed upon conditions provide additional assurances to the Commission and Arizona consumers that the transition from the cost-of-service/rate-of-return style of regulation to regulation under the Commission's competition rules will not have been made prematurely,

Q. PLEASE SUMMARIZE YOUR RECOMMENDATION TO THE COMMISSION.

A. I recommend that the Commission approve the Settlement Agreement because it enhances the benefits of competition to Arizona consumers, and meets the primary objective CenturyLink had for filing the Application—to secure regulatory parity with our primary wireline competitors. Prices will be set in an environment where success is determined by how effective a company is in meeting the demands of the marketplace in terms of managing its costs, as well as the variety of services and the quality of service it provides. The Settlement Agreement will result in a company that is better able to compete because it

1 will no longer be regulated differently from how its competitors are regulated. The
2 elimination of the uncertainty surrounding CenturyLink's regulated status and the increased
3 pricing flexibility available as a competitive carrier will provide more confidence to the
4 company as it continues to make investments in the network and provide employment
5 opportunities for the citizens of the state.

6 **Q. WERE THE CONDITIONS AGREED TO IN THE SETTLEMENT AGREEMENT**
7 **NECESSARY IN ORDER TO MEET THE REQUIREMENTS FOR THE**
8 **APPROVAL OF THE APPLICATION IN ARIZONA AS SET FORTH IN A.A.C.**
9 **R14-2-1108?**

10 A. We believe we made our case prior to entering the settlement. The evidence in this docket
11 supports an unqualified and unconditional finding of competitive classification for
12 CenturyLink-QC's services. However, we also believe that the conditions in the
13 Settlement Agreement are not unreasonable, particularly since the conditions are limited in
14 duration and scope. In the end, we concluded that we could accept those conditions in
15 exchange for the relative certainty of the result embodied in the Settlement Agreement.

16 The Settlement Agreement declares CenturyLink's services to be competitive under Rule,
17 1108, with conditions. Staff's litigation position, which recommended a new classification
18 referred to as "emerging competitive," was well meaning and by all appearances intended
19 to recognize the extent of competition that CenturyLink faces in Arizona. Many of the
20 recommendations made by Staff in connection with its "emerging competitive"
21 classification would have moved CenturyLink closer towards parity in regulation with its
22 competitors. However, this classification is not something currently found in the
23 Commission's rules, which raised concerns among some of the parties. The Settlement

1 Agreement captures many of the recommendations from Staff's Direct Testimony, but in a
2 way that we believe is more consistent with the rules, more defensible, and which more
3 accurately reflects the true nature of the telecom market in Arizona. RUCO also strongly
4 supported an unconditional finding that CenturyLink's services are competitive under rule
5 1108, provided that certain safeguards are put in place. The limits on Rule 1110 and Rule
6 1109 increases provided for in the Settlement Agreement are consistent with the safeguards
7 proposed by RUCO.

8 The Settlement Agreement applies to all CenturyLink service areas, which we believe was
9 justified by our evidence. At the same time, it protects against the fear of price gouging
10 that others in the docket had concern could occur in those few areas where competition is
11 not as intense as it is in the urban areas. That protection is accomplished by the condition
12 which requires CenturyLink to charge statewide uniform rates (Section 2.2.e.) for at least
13 three years. This is not an unreasonable condition in our view, since CenturyLink's
14 practice is not to engage in pricing differentiations which could be construed as price
15 gouging.

16 The Settlement Agreement guards against the possibility of "rate shock" by limiting the
17 increases CenturyLink may request for residential services and small and medium business
18 services for three years (Section 2.2.a. and 2.2.b.).

19 The Settlement Agreement provides in Section 2.4 a process which will enable
20 CenturyLink to show, in a streamlined way, that the competitive circumstances which
21 prevail now have not receded and, upon such a showing, be relieved of the conditions.
22 That streamlined showing will look at the most critical facts as they exist three years in the

1 future—the penetration of wireless in the state and the trend of customers replacing their
2 landline voice service with wireless service—as well as broadband availability, which will
3 enable voice-over-internet growth.

4 The conditions and the process for elimination of the conditions are safeguards imposed in
5 addition to the safeguards already embedded in the Commission's rules. The
6 Commission's rules already provide for Commission approval of every maximum rate
7 increase, and we are certain that the Commission would not approve of price gouging.
8 Also, the Commission rules already provide for revocation of competitive designation, if
9 circumstances have changed. However, the enumerated conditions in the Settlement
10 Agreement are not unreasonable, and provide a streamlined way for CenturyLink to
11 eliminate the conditions after three years by verifying that the competitive landscape
12 continues.

13 **Q. CAN YOU SUMMARIZE HOW THE PROPOSED TRANSACTION IS EXPECTED**
14 **TO BENEFIT ARIZONA CUSTOMERS, AND WHY IT SATISFIES THE**
15 **ARIZONA STANDARD OF REVIEW WITHOUT ADDITIONAL CONDITIONS?**

16 A. Yes. The benefits of granting competitive classification for CenturyLink's services in
17 Arizona are addressed in the direct and rebuttal testimony filed in the docket.

18 These benefits include:

- 19 • By reducing unneeded regulatory burdens, CenturyLink will be able to be more
20 responsive to customer demand and competitive market conditions.

- 1 • CenturyLink will be better positioned to bring products, services, and targeted
2 offers and promotions to the market with greater speed and effectiveness.
- 3 • Prices for all services will reflect market conditions rather than the application of
4 historical monopoly pricing models.
- 5 • There will be parity in how CenturyLink-QC is regulated in relation to Cox and
6 others who are subject to this Commission's jurisdiction.

7 **Q. HOW DO YOU RECOMMEND THE COMMISSION VIEW THE PROPOSED**
8 **SETTLEMENT AGREEMENT?**

9 A. The Commission should view the Settlement Agreement as a proper and expeditious
10 procedural vehicle upon which it may formally recognize that the telecom voice market is
11 competitive, and that CenturyLink should be regulated as a competitive provider, at parity
12 with Cox and other CLECs..

13 The Settlement Agreement provides additional assurances justifying swift approval. The
14 settling parties include the Staff; and RUCO, representing consumers and the general
15 public; and also the Arizona Investors Council, representing the investment community.
16 Although the DoD/FEA and tw telecom have chosen not to sign the Settlement Agreement,
17 they participated in all settlement discussions and have stated that they do not oppose the
18 agreement. The Commission may infer that whatever concerns these parties may have
19 expressed previously have been substantially, if not completely addressed by the
20 Settlement Agreement.

21 The Commission may also take notice that every customer received notice of the
22 Application, in two different ways. First, a legal notice was published pursuant to the

1 Commission's order, and a second notice was included in each customer's bill. The
2 DoD/FEA was the only retail customer to intervene.

3 Further, CenturyLink directly notified every wholesale customer, including but not limited
4 to very large competitors such as Cox, AT&T, and Verizon. tw telecom, inc. was the only
5 telecommunications service provider to intervene, and that intervention was not in
6 opposition.

7 From these facts the Commission should rightfully discern that consumers, businesses, the
8 investment community, and the telecommunications industry do not have significant
9 concerns about the proposed relief. Indeed, given the lack of objections and concerns and
10 the state of the competitive market, the conclusion is justified that the relief CenturyLink
11 seeks in this Docket is non-controversial and completely warranted.

12 **Q. FOCUSING SPECIFICALLY ON THE PROCESS ASSOCIATED WITH THE**
13 **SETTLEMENT AGREEMENT, HOW WAS THIS AGREEMENT REACHED?**

14 A. Following a meeting with Staff in late March, which included a discussion of the March
15 16, 2012 Direct Testimony filed by the various parties, CenturyLink decided to initiate
16 settlement discussions and Staff and RUCO agreed, in order to see if a settlement could be
17 reached, or in the alternative, to determine if the number of issues for consideration at the
18 hearing could at least be narrowed. On March 29, 2012, Staff filed a notice of settlement
19 discussions in the docket and on March 30th, CenturyLink docketed a Notice of Settlement
20 Discussions inviting all parties to the first settlement meeting on April 5th, 2012. A
21 subsequent settlement meeting was held on April 9th, following which discussions were
22 suspended due to what appeared at the time to be irreconcilable positions of the parties.

1 However, at the beginning of the 2nd day of the hearing on May 1st, the parties met during a
2 brief recess and agreed to resume discussions. Subsequent settlement meetings took place
3 on May 2nd, May 3rd, and May 9th, at which time an agreement in principle was reached.
4 This agreement was later memorialized by the proposed Settlement Agreement filed in the
5 docket.

6 **Q. SHOULD THE COMMISSION BE CONCERNED THAT THE THE DOD/FEA**
7 **AND tw telecom DID NOT AGREE TO THE SETTLEMENT AGREEMENT?**

8 A. No. Although neither of these two parties chose to sign the agreement, they each stated at
9 the conclusion of the settlement discussions that they would not oppose it. The clear
10 inference of their position is that they are not opposed to approval of CenturyLink's
11 application given the conditions of the Settlement Agreement.

12 **Q. PLEASE PROVIDE AN OVERVIEW OF THE PROPOSED SETTLEMENT**
13 **AGREEMENT?**

14 A. The Proposed Settlement Agreement would grant CenturyLink's petition for competitive
15 classification of its services under Rule 1108 with the following conditions:

16 1. For a period of 3 years from the date of approval, any request to increase maximum
17 rates for residence, small business, and medium business customers would be limited to
18 25% over current rates.

19 2. For a period of 3 years from the date of approval, any filing under R14-2-1109 to
20 increase actual rates would be limited to 10% annually for residence customers and
21 15% annually for small and medium businesses.

1 3. Staff will not contest any filings by CenturyLink in connection with items 1 and 2
2 above, but no other party is constrained from opposing a filing made in connection with
3 Rule 1110.

4 4. Enterprise services, and services previously found to be competitive under Rule 1108
5 shall not be subject to any of the previously stated conditions.

6 5. CenturyLink agrees to charge statewide uniform rates for its services for a period of 3
7 years and thereafter until such time as it is granted Commission approval to deaverage
8 rates in a filing pursuant to Rule 1110.

9 6. 30 months following approval of the Settlement Agreement, CenturyLink may make a
10 filing which demonstrates that competition for voice services in Arizona is the same or
11 greater than the levels in existence at the time of the filing of the Application in this
12 docket. The above conditions shall terminate six months following such a filing and
13 subsequent verification by Staff. The criteria to be used in determining whether the
14 level of competition is the same or greater are as follows:

- 15 • The percentage of consumers who have no landline voice connection, as
16 specified in the National Center for Health Statistics Report, shall be 30%
17 or greater;
- 18 • Wireless connections, as set forth in the FCC's Local Competition Report,
19 shall represent 65% or greater of total voice connections in Arizona; and
20 • Access to VOIP providers shall be measured by xDSL broadband
21 availability in Arizona, as set forth in the FCC Internet Access Services
22 Report, and shall be 88% of households or greater.
23
24

25 7. After the expiration of three years from approval of the Settlement Agreement, if
26 CenturyLink does not make a showing described in No. 6 above, CenturyLink may

1 continue to seek changes pursuant to Rule 1110, unless the Commission makes a
2 finding that its services are not competitive. However, the Commission may consider
3 that the conditions in Paragraph 6 above have not been demonstrated in its evaluation
4 of the Rule 110 filing.

5 8. The Settlement Agreement recommends approval for the deregulation of 40 services, as
6 recommended in Staff's direct testimony.

7 9. CenturyLink shall not hereafter be required to make a rate case filing under Rule R14-
8 2-103 unless the Commission makes a finding that its services are not competitive.
9 Further, the procedures for setting rates established in the current Price Cap Plan will
10 be superseded, but CenturyLink may continue to operate under the terms and
11 conditions of service and the rates contained in the 2nd Price Cap order (Decision No.
12 68604) until new rates are filed under either Rule 1110 or 1109.

13 10. All rates, terms, conditions and requirements now applicable to wholesale services in
14 Arizona, including those under Basket 4 of the Price Cap Plan, are unchanged by the
15 Settlement Agreement.

16 11. CenturyLink agrees to continue to comply with its Service Quality Plan Tariff.

17 **III. CONCLUSION**

18 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATION TO THE COMMISSION.**

19 **A.** The Settlement Agreement provides an expedited process upon which the Commission
20 may confidently rule that Centurylink's services are competitive, thereby affording the

1 company long overdue regulatory parity for retail rate-setting. At the same time, the
2 Settlement Agreement contains conditions which are in addition to the existing safeguards
3 in the rules. Those conditions require a gradual phased-in approach for future retail rate
4 increases that may be sought by Centurylink for residential and small and medium business
5 customers for a period of three years. Further, the conditions provide a mechanism by
6 which Centurylink can validate its competitive circumstances in the future, and thereby
7 eliminate the conditions. Recognition of the competitive nature of the market in Arizona
8 and the application of a rate-setting mechanism in competitive circumstances will help
9 eliminate uncertainty and further bolster Centurylink's commitment to being the premier
10 provider in the state, continuing to meet the needs of our customers with modern
11 telecommunications solutions.

12
13 **Q. DOES THIS CONCLUDE YOUR SETTLEMENT TESTIMONY.**

14 **A. Yes.**

Proposed Settlement Agreement
Docket No. T-01051B-11-0378
In the Matter of the Application of Qwest Corporation dba Century Link-
QC to Classify and Regulate Retail Local Exchange Telecommunications
Services as Competitive and to Classify and Deregulate Certain Services as
Nonessential

The purpose of this Settlement Agreement ("Agreement") is to settle disputed issues related to Docket No. T-01051B-11-0378. This Agreement is entered into by the following entities:

Arizona Corporation Commission Utilities Division ("Staff")

Qwest Corporation dba Century Link-QC ("Century Link")

Residential Utility Consumer Office ("RUCO")

Arizona Investment Council ("AIC")

These entities shall be referred to collectively as "Signatories;" a single entity shall be referred to individually as a "Signatory."

I. RECITALS

- 1.1 Century Link filed the application underlying Docket No. T-01051B-11-0378 on October 13, 2011.
- 1.2 Subsequently, the Commission approved applications to intervene filed by RUCO, AIC, the Department of Defense/Federal Executive Agencies ("DoD/FEA"), and tw telecom of Arizona, LLC..
- 1.3 The Signatories conducted settlement discussions in this matter that were open, transparent, and inclusive of all parties to this docket who desired to participate.
- 1.4 The terms of this Agreement are just, reasonable, fair, and in the public interest in that they, among other things, establish just and reasonable classifications for ratemaking purposes; resolve issues arising from this docket; and avoid unnecessary litigation expense and delay.
- 1.5 The Signatories ask the Commission 1) to find that the terms and conditions of this Agreement are just, reasonable, and in the public interest; and 2) to approve the Agreement as written.

TERMS AND CONDITIONS

II. Competitive Classifications Approved Subject to Conditions

In order to settle the principal disputed issues in this matter, the Signatories agree as follows:

- 2.1** In connection with CenturyLink's Rule 1108 Competitive Classification Application, services shall be considered to be competitive and in compliance with Rule 1108, subject to the conditions set forth in paragraphs 2.2, 2.3 and 2.4 ("Competitive Classification Approved Subject to Conditions").
- 2.2** CenturyLink may file a proceeding under Rule 1110 to increase its rates.
 - a.** For a period of three years from the date an order is entered by the Commission in this docket approving this agreement or otherwise resolving this petition (the "Order Approving Settlement"), CenturyLink shall not be entitled to increase its maximum rates for residential services or for small and medium business services greater than 25% over present rates.
 - b.** In connection with the filing under Rule 1110 described above, CenturyLink may thereafter file under Rule 1109 to increase its actual rates by no more than 10% annually for residential services during the three years following the Order Approving Settlement and no more than 15% annually for small and medium business services during the three years following the Order Approving Settlement.
 - c.** Staff agrees not to contest a request by CenturyLink under Rule 1110 to increase the maximum rates for services as set forth in paragraph 2(a) above or a request by CenturyLink under Rule 1109 to change the actual rates as set forth in paragraph 2(b) above. No other party shall be constrained from opposing Rule 1110 increases requested by CenturyLink.
 - d.** No other consensual limitations apply to maximum rates for the above three year period. Enterprise services are considered fully competitive and may be increased pursuant to a Rule 1110 proceeding. Services already found to be competitive under Rule 1108 are not subject to the conditions in paragraphs 2(a) and 2(b) above. The services previously classified as competitive under Rule 1108 are listed in Attachment A.
 - e.** CenturyLink agrees for a period of three years from the date of the Order Approving Settlement to charge statewide uniform rates for services subject to paragraphs 2(a) and 2(b) above. Thereafter, CenturyLink agrees to continue to charge uniform rates unless it specifically requests and is granted Commission authorization to deaverage rates in a filing pursuant to Rule 1110.
- 2.3** CenturyLink will file semi-annual reports with the Commission, Staff, and RUCO for a period of three years, commencing six months after the date of the Order Approving Settlement, setting forth data to be agreed with Staff and RUCO showing the state of competition in the State.
- 2.4** After the expiration of at least 30 months from the date of the Order Approving Settlement, CenturyLink may make an additional submission in this docket,

demonstrating that competition for voice services in Arizona is the same or greater than the levels CenturyLink's testimony and evidence claim exist at the time of the filing of the Application in this docket. CenturyLink's additional submission shall be based on competitive reports, data and statistics, including but not limited to the National Center for Health Statistics Wireless Substitution Report, the Federal Communications Commission ("FCC") Local Competition Report, and the FCC Internet Access Services Report. CenturyLink in such filing shall demonstrate that:

- a. The percentage of consumers who have no landline voice connection, as specified in the National Center for Health Statistics Report, shall be 30% or greater;¹
- b. Wireless connections, as set forth in the FCC's Local Competition Report, shall represent 65% or greater of total voice connections in Arizona;² and
- c. Access to VOIP providers shall be measured by xDSL broadband availability in Arizona, as set forth in the FCC Internet Access Services Report, and shall be 88% of households or greater.³

Upon such a filing by CenturyLink and verification by Staff, the Signatories stipulate that the conditions set forth in paragraphs 2.2, 2.3, and 2.4 shall terminate six months after such filing. CenturyLink may thereafter file, in its discretion, requests for additional pricing flexibility pursuant to the streamlined ratemaking procedures of Rule 1110, and the other parties hereto reserve their rights to object to any filings under Rule 1110.

2.5 After the expiration of three years from the date of the Order Approving Settlement, if CenturyLink does not make the showing described in Paragraph 2.4 above, CenturyLink may continue to seek rate changes pursuant to Rule 1110 (unless the Commission makes a finding that its services are not competitive). However, the Commission may consider that the conditions in Paragraph 2.4 above have not been demonstrated in its evaluation of the Rule 1110 filing.

2.6 The Signatories stipulate to the Staff's recommendations on the deregulation of services requested by CenturyLink in its application to be de-regulated. These services to be deregulated are listed in Attachment B.

¹ Based on "Wireless Substitution: Early Release of Estimates From the National Health Interview Survey," which is released by the National Center for Health Statistics every six months. The metric is the percent of American households that are wireless-only, as delineated in Table 1 of the report released 12-21-11.

² Based on "Local Telephone Competition: Status as of XXX" released by the FCC's Industry and Analysis and Technology Division twice a year. The percentage Metric is based on the quantity of Arizona wireless connections as shown in Table 17, and the ILEC and non-ILEC lines shown in Tables 12 and 13 (in report dated October 2011).

³ Based on "Internet Access Services: Status as of XXX" released by the FCC's Industry and Analysis and Technology Division twice a year. The Metric for Arizona is provided in table 24, column 1, of the report dated October 2011.

- 2.7 The Signatories stipulate that CenturyLink shall not hereafter be required to make a rate case filing under Rule 103, unless the Commission makes a finding that CenturyLink's services are not competitive.
- 2.8 All rates, terms, conditions and requirements now applicable to wholesale services in Arizona are unchanged by this Agreement, including those treated under Basket 4 in the Price Cap Plan.
- 2.9 The Signatories agree that, upon issuance of the Order Approving Settlement, the procedures for setting rates established in the current Price Cap Plan approved by the Commission in Decision No. 68604 (Docket No. T-01051B-03-0454) will be superseded by implementation of the foregoing provisions. CenturyLink may continue to operate under the terms and conditions of service and the rates contained in Decision No. 68604 until new rates are filed under either Rule 1110 or Rule 1109 for each service, as described above.
- 2.10 Until further order by the Commission, CenturyLink agrees to be bound by existing statutes and rules in effect, including but not limited to R14-2-503(C) and rules regarding the provision of services to qualifying low income customers.
- 2.11 CenturyLink and DoD/FEA agree to request withdrawal of their agreement filed on April 19, 2012 from Commission consideration in this docket, and the remaining Signatories agree not to oppose the withdrawal of that agreement from Commission consideration in this docket.
- 2.12 CenturyLink agrees to continue to comply with the Service Quality Plan developed for Qwest Corporation.

III. COMMISSION EVALUATION OF PROPOSED SETTLEMENT

- 3.1 All currently filed testimony and exhibits shall be offered into the Commission's record as evidence.
- 3.2 The Signatories recognize that Staff does not have the power to bind the Commission. For purposes of proposing a settlement agreement, Staff acts in the same manner as any party to a Commission proceeding.
- 3.3 This Agreement shall serve as a procedural device by which the Signatories will submit their proposed settlement of Century Link's pending application, Docket No. T-01051B-11-0378, to the Commission.
- 3.4 The Signatories recognize that the Commission will independently consider and evaluate the terms of this Agreement. If the Commission issues an order adopting all material terms of this Agreement, such action shall constitute Commission approval of the Agreement. Thereafter, the Signatories shall abide by the terms as approved by the Commission.
- 3.5 If the Commission fails to issue an order adopting all material terms of this Agreement, any or all of the Signatories may withdraw from this Agreement, and such Signatory or Signatories may pursue without prejudice their respective remedies at law. For purposes of this Agreement, whether a term is material shall be left to the discretion of the Signatory choosing to withdraw from the Agreement. If a Signatory withdraws from the Agreement pursuant to this

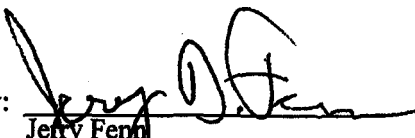
paragraph and files an application for rehearing, the other Signatories, except for Staff, shall support the application for rehearing by filing a document with the Commission that supports approval of the Agreement in its entirety. Staff shall not be obligated to file any document or take any position regarding the withdrawing Signatory's application for rehearing.

IV. MISCELLANEOUS PROVISIONS

- 4.1** To achieve consensus for settlement, the Signatories are accepting positions that, in any other circumstances, they would be unwilling to accept. They are doing so because this Agreement, as a whole, is consistent with their long-term interests and with the broad public interest. The acceptance by any Signatory of a specific element of this Agreement shall not be considered as precedent for acceptance of that element in any other context.
- 4.2** No Signatory is bound by any position asserted in negotiations, except as expressly stated in this Agreement. No Signatory shall offer evidence of conduct or statements made in the course of negotiating this Agreement before this Commission, any other regulatory agency, or any court.
- 4.3** Neither this Agreement nor any of the positions taken in this Agreement by any of the Signatories may be referred to, cited, or relied upon as precedent in any proceeding before the Commission, any other regulatory agency, or any court for any purpose except to secure approval of this Agreement and enforce its terms.
- 4.4** To the extent any provision of this Agreement is inconsistent with any existing Commission order, rule, or regulation, this Agreement shall control.
- 4.5** Each of the terms of this Agreement is in consideration of all other terms of this Agreement. Accordingly, the terms are not severable.
- 4.6** The Signatories shall make reasonable and good faith efforts to obtain a Commission order approving this Agreement. The Signatories shall support and defend this Agreement before the Commission. Subject to paragraph 3.5, if the Commission adopts an order approving all material terms of the Agreement, the Signatories will support and defend the Commission's order before any court or regulatory agency in which it may be at issue.
- 4.7** This Agreement may be executed in any number of counterparts and by each Signatory on separate counterparts, each of which when so executed and delivered shall be deemed an original and all of which taken together shall constitute one and the same instrument. This Agreement may also be executed electronically or by facsimile.

Docket No. T-01051B-11-0378

QWEST CORPORATION dba CENTURYLINK, INC.

By: 
Jerry Fenn
Qwest Corporation dba CenturyLink, Inc.

Dated: May 15, 2012

Docket No. T-01051B-11-0378

ARIZONA CORPORATION COMMISSION

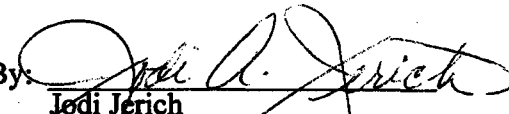
By: 

Steve M. Olea
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

Dated: May 16, 2012

Docket No. T-01051B-11-0378

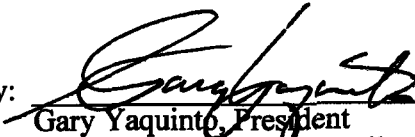
RESIDENTIAL UTILITY CONSUMER OFFICE

By: 
Jodi Jerich
Residential Utility Consumer Office
1110 West Washington Street, Suite 220
Phoenix, Arizona 85007

Dated: 5-17-2012

Docket No. T-01051B-11-0378

ARIZONA INVESTMENT COUNCIL

By: 
Gary Yaquinto, President
Arizona Investment Council
2100 North Central Avenue, Suite 210
Phoenix, Arizona 85004

Dated: 5/15/2012

SETTLEMENT AGREEMENT

Docket No. T-01051B-11-0378

Attachment A

Services Previously Found to Be Competitive

Service	Docket No.	Decision No.
MTS, Private Line, WATS, 800 Service, and Optional Calling Plans	T-01051B-96-0160	Decision No. 59637
Directory Assistance	T-01051B-99-0362	Decision No. 62129
Centrex Prime	T-01051B-97-0528	Decision No. 61089
ATM Cell Relay Service	T-01051B-97-0368	Decision No. 61328
National Directory Assistance	T-01051B-97-0369	Decision No. 60545

Docket No. T-01051B-11-0378
Settlement Agreement
EXHIBIT B
Services Recommended for Deregulation

C10.10.4	TRAFFIC DATA REPORTING SERVICE
C13.2	PREMISES WORK CHARGES
C13.2.1	NETWORK PREMISES WORK CHARGES
C13.3	RESIDENCE MAINTENANCE PLANS
C13.4	BUSINESS MAINTENANCE PLANS
C3.1.9	EXPRESS CHANGE CHARGES
Q4.1.1	SERVICE DATE CHANGE
Q4.1.10	MAINTENANCE OF SERVICE
Q4.1.11	ADDITIONAL ENGINEERING
Q4.1.12	ADDITIONAL LABOR
Q4.1.13	ADDITIONAL ENGINEERING AND LABOR CHARGES
Q4.1.14	ACCEPTANCE TESTING
Q4.1.15	TESTING SERVICES
Q4.1.16	TESTING CHARGES
Q4.1.17	DISPATCH CHARGE
Q4.1.2	DESIGN CHANGE
Q4.1.3	CANCELLATION OF APPLICATION FOR SERVICE
Q4.1.4	EXPEDITE
Q4.1.5	DESIGN LAYOUT REPORT
Q4.1.6	SPECIAL CONSTRUCTION
Q4.1.8	MAINTAINING FACILITIES
Q4.4	PROTECTION SERVICE FOR HIGH VOLTAGE ENVIRONMENTS
Q4.1.9	REPAIR OF FACILITIES
C10.10.1	MESSAGE DELIVERY SERVICE
C10.10.2	MESSAGE WAITING INDICATION
C25.1	CUSTOMIZED SERVICE EQUIPMENT OR SERVICE ARRANGEMENTS
C.10.10.5	CALL EVENT AND MANAGEMENT SIGNALING SERVICE (CEMSS) SUBSCRIBER
C9.4.6	NEXT CONNECTS
C10.5.2	CODE BILLING
C5.4.7	INTRACALL SERVICE
C9.4.4	UNIFORM CALL DISTRIBUTION
C9.4.5	CO-AUTO CALL DISTRIBUTION (CO-ACD)
Q3.2.2	NONRECURRING CHARGES
Q4.3.2	FACILITIES PROTECTION- SPECIAL FACILITIES ROUTING
Q4.5	COMMANDALINK-NETWORK RECONFIGURATION SERVICE
Q5.3	CUSTOM SERVICE ARRANGEMENTS
Q6.2.19	QWAVE SERVICE
Q6.2.5	AUDIO SERVICE
Q6.2.8	EXCHANGE SERVICE EXTENSIONS
Q6.2.9	TELEPHONE ANSWERING SERVICE